



TOP 5 TECHNIQUES FOR STARTUPS VALUATION IN INDIA

Figure 1

There is a famous saying,

“WHENEVER THERE IS A TRANSACTION, THERE IS VALUATION”. IT IS TRUE. BUT THE REVERSE IS NOT TRUE- “WHENEVER THERE IS VALUATION, THERE MUST HAVE BEEN TRANSACTION”.

Many times valuation is isolated from a transaction. A start-up has developed an idea. It has validated the idea. Business promoters would like to the value of their startups now and after, say, 1-3-5 years. Why so? They need it to confirm that:-

- Whether idea has been successful
- Whether business model and business plan have been successful.
- The growth rate of the business
- Employees and other stakeholders’ satisfaction
- Improvement in profitability
- Strategic position in marketplace etc.

Start-up valuation is different from valuing any running business due to many reasons. Start-ups may not have:-

- Business experience
- Operational skill set
- Brand name for their products/services
- Strong R&D base
- Dedicated execution team
- Experience of affording sudden economic shocks
- A required amount of fund etc.

However, the best part of is that startup owners are not biased and secondly, they can be guided and molded on the above issues easily.

Let us discuss some techniques for the startup valuation:

1. **Asset approach:** New businesses normally have few assets. Under this approach, the market value of all the assets is assigned. Assets include current assets also. Apart from that, a value of intangibles must also be assigned. The combined value will be the value of the business.
2. **All principals and employees add value.** Assigning a value to all paid professionals based on their skills, Knowledge, experience and their contribution to the organization may be a fair idea.
3. **Early customers and contracts in progress add value to the business.** Existing customer relationship and contracts should be monetized.

4. Use of discounted cash flow is also a good idea. A reasonable number of future years for which sales seem to be visible can be forecasted. The cash profit should be capitalized at a discount rate. While estimating the discount rate care should be taken to factor the risk and uncertainty and if possible a bit conservative discount rate should be chosen.
5. Earnings multiple approaches- earnings multiple is selected and the average earnings should be multiplied to reach valuation figure. This approach is usually applied to a more mature start-up.

To conclude, whatever may be the techniques used for start-up valuation, care should be taken that:

- It is unbiased
- It is relevant
- It considers all the aspects of valuation
- It is explanatory
- It serves the purpose of various stakeholders
- It should help in making decisions

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